Rexall

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NINETEEN HUNDRED AND FORTY-SIX

ANNUAL ★ REPORT

UNITED-REXALL DRUG, INC. DECEMBER 31, '46

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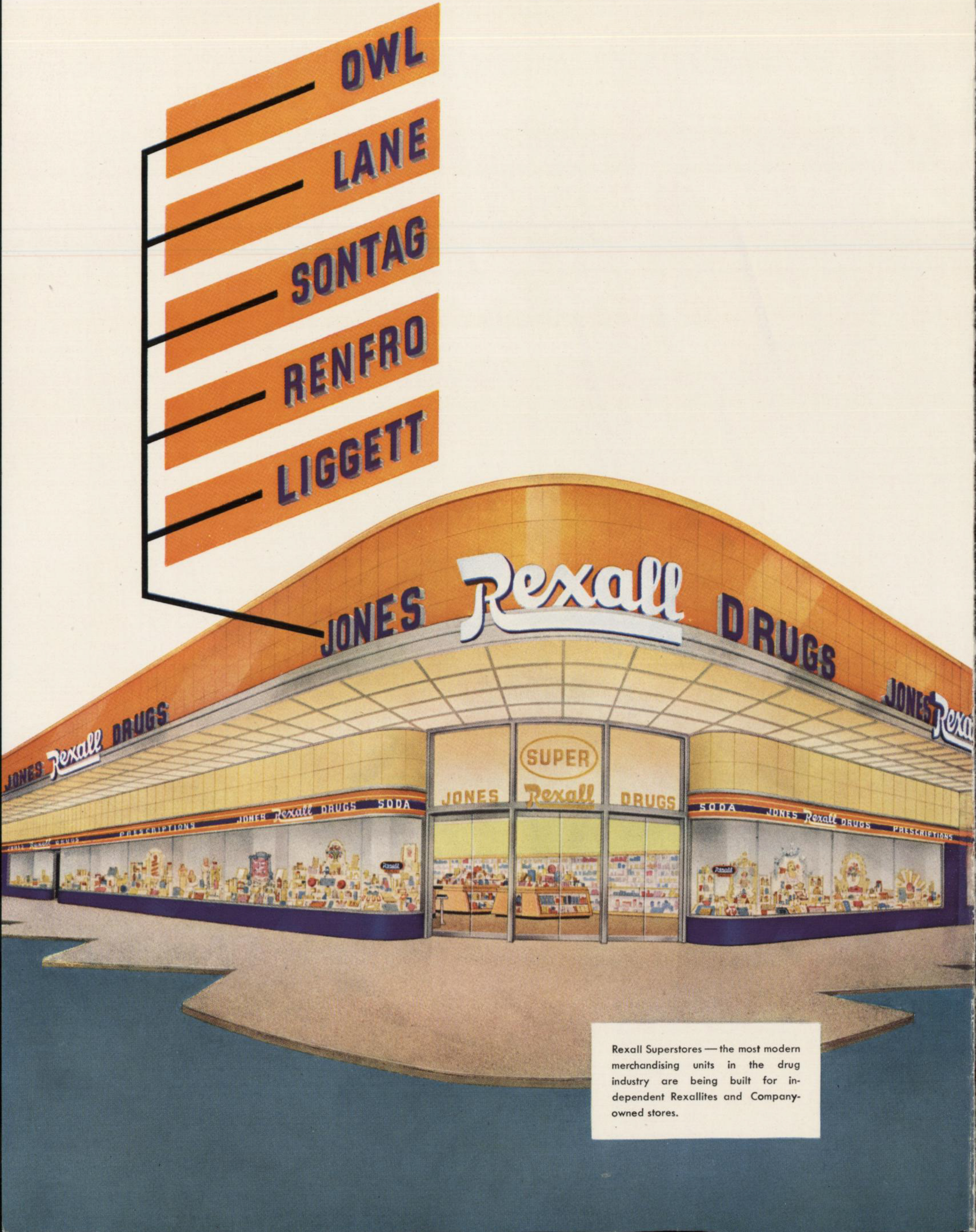

OWL
LANE
SONTAG
RENFRO
LIGGETT
JONES
Rexall
DRUGS
SUPER
SODA
PRESCRIPTIONS

Rexall Superstores — the most modern merchandising units in the drug industry are being built for independent Rexallites and Company-owned stores.

THE PRESIDENT'S LETTER

A FIVE YEAR PROGRESS REPORT

To the Stockholders of the United-Rexall Drug, Inc.:

SALES

Consolidated net sales of your Company and its subsidiaries for 1946 were $178,855,600 as compared with the previous high of $158,182,700 in 1945, an increase of 13% (Chart I).

EARNINGS

Consolidated net income of United-Rexall Drug, Inc. and its subsidiaries for the year ending December 31, 1946, amounted to $4,048,403 or $1.16 per share on the 3,501,120 shares of $2.50 par value common stock outstanding at the year end after providing for depreciation, interest, and Federal and Canadian Income Taxes.

This compares with earnings of $1,970,971 in 1945 after dividends on the preferred stock (since recalled), or 70 cents a share on the common stock then outstanding in terms of $2.50 par value shares (Chart II).

Earnings in 1946 reflect increased expenditures for national advertising and other items of expense, such as store development, incurred primarily to assist independent Rexallites. Your Company is confident that these expenses are well justified on a long-term basis in view of the rapidly growing public acceptance of Rexall products and the improved service facilities in Rexall stores.

FINANCIAL STATEMENTS

Current assets as of December 31, 1946, totaled $68,072,304, of which $17,274,170 was in cash and marketable securities.

Current liabilities, including reserves of $4,623,846 for United States and Canadian Income Taxes and $432,395 for payment of dividends, totaled $20,636,039, leaving net working capital of $47,436,265, an increase of $13,330,834 during the year.

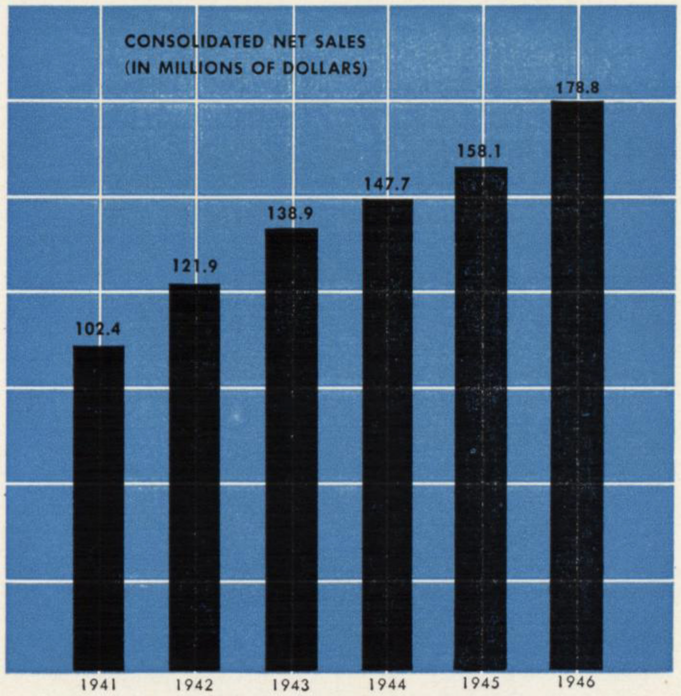
Earned surplus, as shown on the consolidated balance sheet of December 31, 1946, totaled $16,305,756 compared with $12,566,490 a year earlier.

At the end of the current year inventories were valued at $42,842,482, an increase of

$12,814,509 over the value of inventories at the end of the previous year.

The inventory position of your Company increased during the year, not only because of an increase in the price level of commodities it handled and goods it distributed but also because of an increase in the physical amount of its inventories necessitated by the expanding volume of business done by both retail and manufacturing divisions, by an increase in the number and size of stores operated by your Company, and by new enterprises acquired during the year.

CHART I



ACQUISITIONS

Your Company, during 1946, acquired 19 Renfro Drug Stores, in and around Ft. Worth, Texas; the Bay Drug Company, operating three drug stores in Florida; and the Lane Drug Stores Incorporated, operating 58 drug stores in Georgia, Alabama, Tennessee, South Carolina and Florida. It also acquired on May 1, 1946, the Franklin Hosiery Mills, Williamsport, Pa. All financial statements include operations of these units since their acquisitions.

CLOSING OF STORES

As of December 31, 1941, United-Rexall Drug, Inc. operated 535 domestic retail stores. As of the end of 1946, your Company operated 540 domestic stores, including the above chains and the 48 Sontag Drug Stores acquired in 1944.

You will note that after acquiring several chains of stores and opening new stores in its other chains, the Company had only 5 more domestic stores in operation at the close of the year than it had at the close of 1941. This means that your Company has closed a large number of stores consistent with its policy of eliminating small and marginal stores in favor of Superstores.

CHANGES IN FINANCIAL STRUCTURE

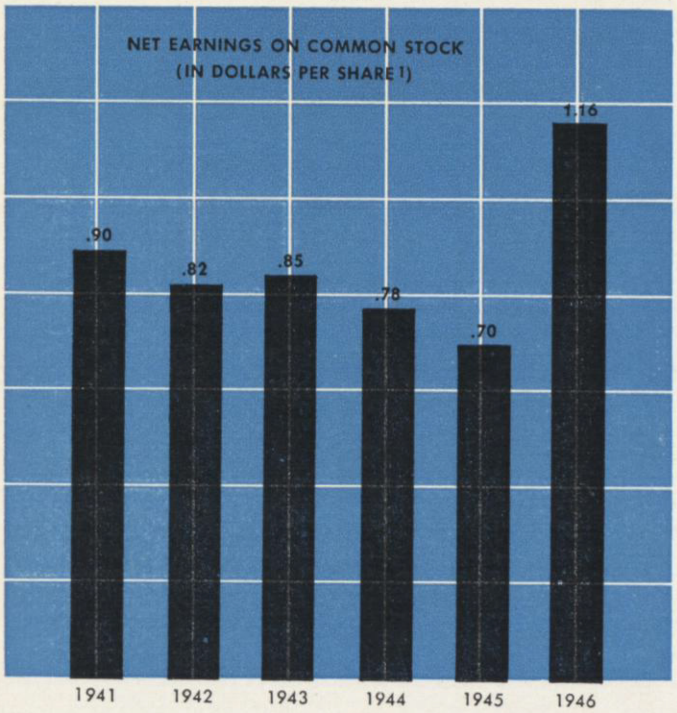
At the last annual meeting, the stockholders authorized the Board of Directors to change each $5 par value share then outstanding into two shares of $2.50 par value common stock. The Board of Directors was also authorized to increase to 5,000,000 shares the number of $2.50 common shares.

Following this authorization, your Company expanded its capital structure when in June, 1946, it sold to a banking syndicate 700,000 shares of the new $2.50 par value stock for $11,287,500. Public offering price of the stock was 16⅞ dollars a share. Proceeds to your Company amounted to 16⅛ dollars a share.

In December, 1946, your principal operating subsidiary, Rexall Drug Company, arranged a serial bank loan in the amount of $1,800,000 and issued $4,200,000 of 3% sinking fund debentures due 1965 to a group of insurance companies. The holders of the new note and the holders of the debentures are among the same financial institutions which purchased similar securities of the subsidiary in 1945.

The $17,287,500 realized from the sale of the additional common stock, and the issuance of the serial bank note and sinking fund debentures, is being used as follows: (1) to provide the additional working capital necessary to properly finance your Company's expanded volume of business; (2) to accomplish the rehabilitation of your Company's own retail properties; (3) to augment and improve its manufacturing facilities; and (4) to install super drug outlets to provide Rexall leadership.

CHART II



1.-On the common stock outstanding in terms of $2.50 par value shares and after dividends on preferred stock in 1943, 1944, and 1945.

Consolidated net worth of your Company and its subsidiaries at the end of 1946 amounted to $35,356,869, or $10.22 a share, compared to $11,644,054 or $4.31 a share on the common stock outstanding at the end of 1941, in terms of $2.50 par value shares. Debt of your Company and its subsidiaries, including serial bank notes maturing in more than one year, amounted to $32,783,477 with an average interest charge of 2.88% compared with $32,717,542 at the end of 1941, with an interest rate then of 5%. During this five-year period, consolidated net worth increased more than 200% while total funded debt increased less than 1% (Chart III).

Trade-marks, goodwill, etc. are eliminated in these comparisons.

DIVIDENDS

On the basis of operating results at the close of the third quarter, 1946, the Directors of your Company declared on November 25, 1946, a dividend of 12½ cents a share on the outstanding shares of $2.50 par value common stock, payable January 2, 1947, to stockholders of record as of the close of business December 9, 1946. This was the first dividend paid on the common stock of your Company since 1937. On February 26, 1947, the Directors of your Company declared another dividend of 12½ cents a share on the outstanding shares of $2.50 par value common stock of your Company, payable April 2, 1947, to stockholders of record as of the close of business March 10, 1947. These two dividends represent the payment of $865,840 to stockholders.

Previous to these dividends, your Board of Directors believed it advisable to retain earnings for general corporate purposes. The benefits of this policy are reflected in the increases in the book value of the common shares during the past five years (Chart IV).

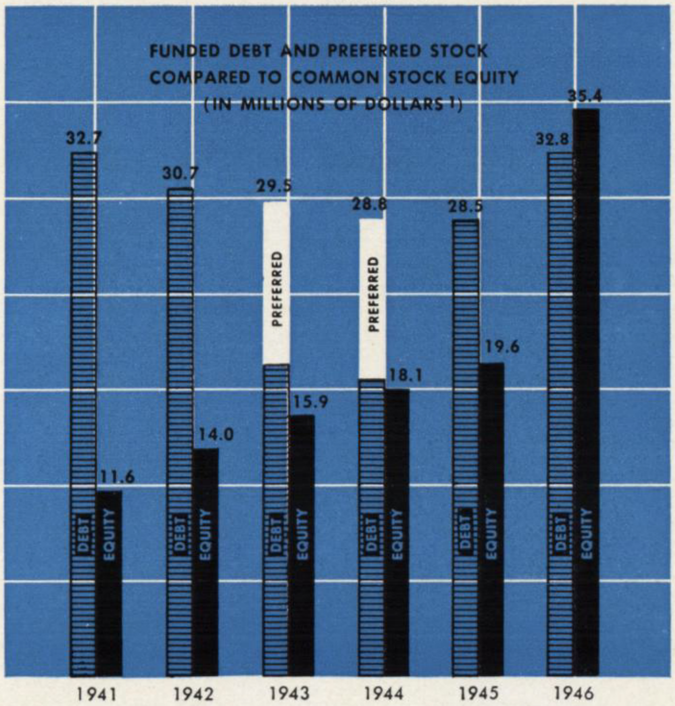
EXECUTIVE BONUS

In February, 1946, your Board of Directors approved a profit-sharing and incentive plan for Company executives. At their own request, the Chairman of your Board and your President were specifically excluded from the plan. On the basis of the formula approved by the Board, the maximum sum available for 1946 as additional compensation for executives amounted to $267,450. The Board, however, voted to limit the amount to $200,000.

CHANGE IN CORPORATE NAME

In November, 1946, the name of your principal operating subsidiary was changed to Rexall Drug Company to take full advantage of its best-known trade name, Rexall.

CHART III



1.— Goodwill eliminated.

This change completed a transition in the name of your principal operating subsidiary from United to Rexall. This transition was made slowly and through successive steps during the last two years to preserve the identity of this subsidiary in the minds of Rexallites and the public. Thus its name has moved from United Drug Company to United-Rexall Drug Company and, in this last step, to Rexall Drug Company.

To complete this name-change program, your Board of Directors requests authority to change the name of the parent company to Rexall Drug, Inc.

OPPORTUNITY UNLIMITED

Starting on page 12 of this report you will find the story of the program to merchandise, package and advertise Rexall products more effectively and to upgrade Rexall stores. This program has been in operation for only a little more than one year. Results in both independent and our own Rexall retail stores are gratifying for even this short period.

Total dollar sales volume of Rexall merchandise during 1946 was the largest on record by a very substantial amount.

We suggest you read the story of our expanded national advertising program on pages 10 and 11. Rexall products are receiving new consideration by the consuming public as a result of the advertising campaign being carried on nationally and pinpointed in local communities through the cooperative efforts of Rexall franchise holders and our own retail stores.

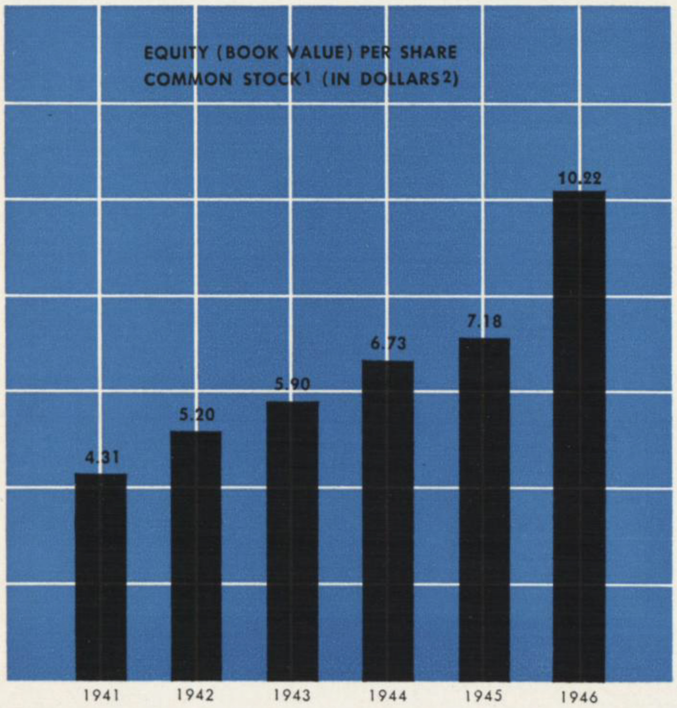
HEADQUARTERS BUILDING

The new Home Office building in Los Angeles, California, will be completed during 1947. It is a two-story building of poured concrete construction. Included in the building is one of the largest real drug stores in the world, and by a wide margin the most modern and best-designed. Ample parking space has been provided for the store's customers and employees. It is approximately seven miles from downtown Los Angeles.

POST-WAR PLANS

The full results of the Company's post-war plans, put into effect in 1945 and 1946, cannot be realized for several years. Initial results, however, have been most gratifying. The changes made thus far have been well accepted by the consuming public and are receiving the enthusiastic support of Rexall franchise holders and Company employees.

CHART IV



1.-On the stock outstanding in terms of $2.50 par value shares and after dividends on preferred stock in 1943, 1944, and 1945.

2.-Goodwill eliminated.

A new packaging program for popular Rexall products is gradually reaching completion. Although production of many new packages has been hampered by the shortage of container materials, some repackaged products are now on dealers' shelves. The restyling of our packages will take full advantage of the "Rexall" trademark and will greatly increase their acceptability.

LABOR RELATIONS

On December 19, 1946, the retail clerks' union initiated a strike against the San Francisco stores of our retail subsidiary, The Owl Drug Co. The dispute centers largely on a demand for the payment of the same minimum take-home pay for a forty-hour week of five days as was formerly received for a forty-eight hour week of six days. The dispute presently involves twenty stores, eleven of which are completely closed and the remainder of which are being operated with managerial staffs at only a fraction of the normal business volume.

The drug store is unlike any other retail establishment inasmuch as it is open nights, Sundays and holidays. It cannot render the same service that it has always rendered to the medical profession and to the community at large and substantially shorten its hours of operation. Accidental tragedy and illness are no respecters of hours.

To staff drug stores on a premium overtime basis would raise operating costs and therefore prices to an unconscionable level.

STOCKHOLDERS

The Board of Directors and Management wish to express their thanks to stockholders for their cooperation and interest.

We urge you to exercise your voting rights and return your proxy this year as speedily as possible.

Respectfully submitted,

J. W. Dart
President.

March 26, 1947.

THIS IS REXALL

WHAT IS REXALL?

REXALL is a manufacturer.
REXALL is a distributor.
REXALL is a retailer.
REXALL is a philosophy of business.

REXALL THE MANUFACTURER

In a modern scientific plant in St. Louis, Rexall manufactures approximately 2,400 different drug and pharmaceutical products. Forty years of experience in drug research and manufacturing, the tested knowledge of trained scientists, and the skill of laboratory technicians, plus physical facilities unsurpassed by any in the world go into the making of these products and assure their outstanding quality.

In addition, Rexall manufactures in other plants products ordinarily handled by druggists, such as rubber goods, candy, stationery, fountain syrups, and cosmetics. These plants include: The Seamless Rubber Company, New Haven, Conn., producers of druggists' rubber sundries, some of which bear brand names such as Kantleek, Symbol, Defender, and others; United Chocolate Refiners, Inc., Mansfield, Mass., makers of Gales Chocolates, and other candies and chocolate products; Hudson Valley Pure Food Company, Inc., Highland, N. Y., producers of Gales Soda Fountain Fruits and Syrups, grape juice, jellies, and other food products; Eastern Tablet Corporation, Albany, N. Y., manufacturers of stationery, paper cups, and related products; The Absorbent Cotton Company of America, Valley Park, Mo., manu-

Rexall
PURETEST
PLENAMINS

Rexall
PURETEST
ASPIRIN

Rexall
Milk of Magnesia

Rexall
BISMA REX

facturers of Rexall Absorbent Cotton and Gauze Bandages, dressings, and allied products; United Cotton Products Company, Fall River, Mass., makers of special cotton fabrics; and the Franklin Hosiery Mills, Inc., Williamsport, Pa., producers of fine nylon hosiery.

In a separate plant in Boston, Rexall also makes Cara Nome and other lines of women's cosmetics and toiletries, and Stag toiletries for men. In Toronto, the United-Rexall Drug Company, Ltd. (Canada) manufactures proprietary medicines, pharmaceuticals, toilet goods, and cosmetics for the Rexall stores in that country.

All of these products are made and tested by the most advanced scientific methods under laboratory-controlled conditions. Certain products not made in a Rexall plant but purchased and sold under a Rexall trade-mark for distribution exclusively through Rexall stores are subjected to the same exacting scrutiny by Rexall's development and control laboratories as are those products made entirely in Rexall plants. Pharmacists, chemists, physicians, dentists, pathologists and bacteriologists analyze and test every article for quality and purity.

REXALL THE DISTRIBUTOR

How do Rexall products reach the consumer? Through REXALL drug stores exclusively!

In the United States and Canada, nearly 10,000 of these Rexall stores, serving approximately 25 per cent of all drug store customers, are independently owned. They are identified by the orange, blue and white oval sign, "REXALL."

These independent druggists have exclusive franchises to retail Rexall products in their respective towns or areas.

Today, ten plants and strategically located warehouses place approximately 5,000 Rexall products in Rexall drug stores throughout North America.

REXALL THE RETAILER

Rexall, through its own retail subsidiaries, operates about 600 drug stores in the United States and Canada.

These stores are the Liggett, Owl, Sontag, Renfro, Lane and Bay chains. Liggett stores are found in the East and Middle West and in Canada; Owl and Sontag in the Far West; the Renfro stores in Fort Worth; the Lane stores in the South, and the Bay stores in Florida.

Rexall's own stores and independent Rexallites' stores soon will be recognized by uniform exterior color scheme — orange and blue, a combination of the traditional colors of the Owl and Liggett stores.

Company-owned stores serve a very important purpose beyond that of bringing Rexall products and other services of the modern drug store to millions of people. In effect, they

Rexall
QUIK-BANDS
ADHESIVE BANDAGES

Rexall Mi 31
Solution
ANTISEPTIC

stag
COOLATED
SHAVING CREAM
stag
COOLATED
SHAVING CREAM

form a vast network of laboratories wherein are tested all the merchandising and service methods, store fixtures, and designs which the Company passes on to the independent Rexallites.

REXALL THE PHILOSOPHY

It is unusual to call a business which sells nearly $180,000,000 worth of products a year a "philosophy," but Rexall is that.

It is a philosophy of opportunity, and a philosophy of cooperation.

The former is called "Opportunity Unlimited," opportunity for the small, independent businessman, working hand-in-hand with a big company, to grow and prosper while retaining his complete independence. This "Opportunity Unlimited" program is of such importance to Rexall's current operations that it is explained in more detail in another section of this report to the stockholders.

YOUR REXALL DRUGGIST

Whether your Rexall druggist is an independent Rexallite in a small community or a Liggett store manager in New York's Times Square area, the orange and blue Rexall sign is your assurance of high quality products, friendly, personalized service, professional integrity and scientific skill.

The drug store, be it in the neighborhood of a big city or on Main Street, Crossroads, U.S.A., is a center of American communal life. The druggist himself is the ever-ready, reliable guardian of the community's health, an alert teammate of the physician and the nurse.

As such, the druggist has a responsibility to his fellow men. Rexall druggists are responsible men. They are substantial men, men of character, men who place public service above all else.

It is not easy to become a Rexall druggist. Because he has an exclusive territorial franchise, Rexall is able to select the druggist who has demonstrated his capabilities, his sincerity, his standard of service and his standing in the community.

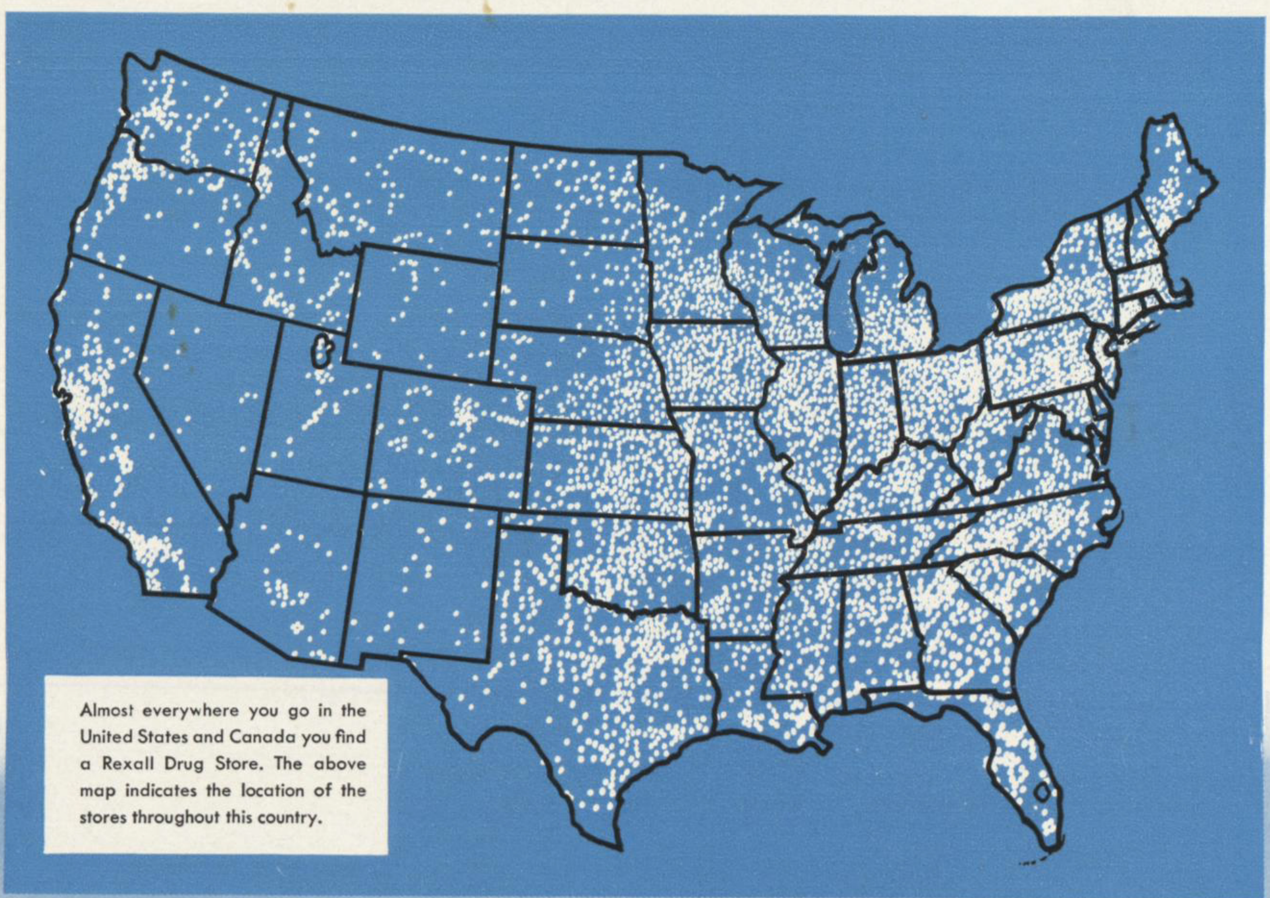
Thus, through the Rexall system, it is possible for the smallest village to have a drug store which incorporates the same principles of service and standards of professional competence as are found in the finest stores in the largest cities.

THAT IS REXALL

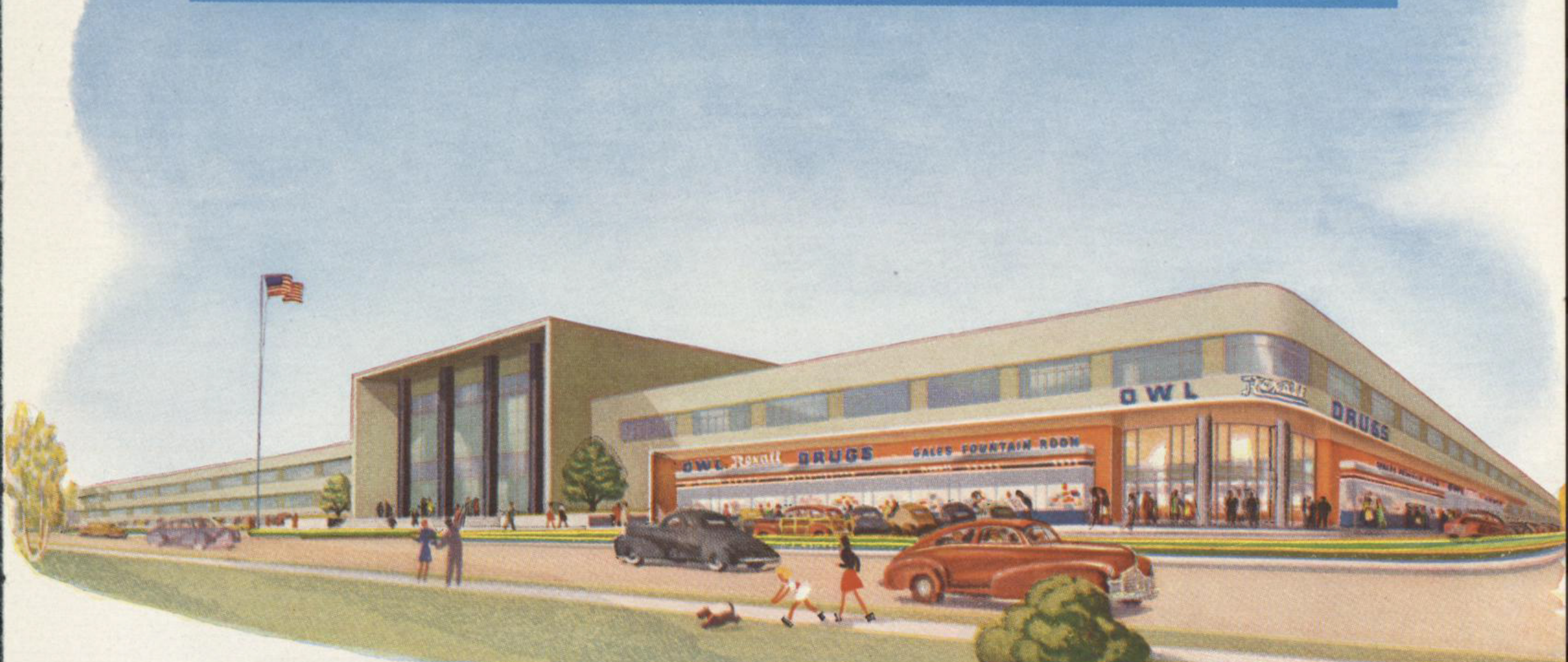
Briten
tooth paste
WITH ALKALIZING FOAM
for brighter smiles
Briten
tooth paste
CLEANS AND BRIGHTENS TEETH

Gales AMERICAN

Lord Baltimore
LINEN FINISH



Almost everywhere you go in the United States and Canada you find a Rexall Drug Store. The above map indicates the location of the stores throughout this country.


OWL
Rexall
DRUGS
OWL Rexall DRUGS
SALES FOUNTAIN ROOM

Architect's sketch of Rexall's new Headquarters Building at Beverly & La Cienega Boulevards in Los Angeles. Building will be ready for occupancy in 1947.

NATIONAL ADVERTISING PROGRAM

PROGRAM

One of the most important developments in the history of Rexall was the inauguration of its national advertising program three years ago. Until that time, each Rexall store had only a small advertising voice locally. There was no strong national voice speaking for Rexall and for Rexallites. There was no coordinated advertising program to sell Rexall products on both a national and a local basis.

Today, over the radio, in national magazines, and in the professional journals, there is such a voice. A national campaign sells Rexall as a complete line of quality drug products available in more than 10,000 fine drug stores which serve almost that many communities in the United States and Canada. A coordinated program of local advertising and merchandising aids makes available to individual Rexallites the finest advertising and sales promotion talent in the industry. No other group of independent druggists in the world has such powerful advertising support as the Rexallite.

OBJECTIVE

Rexall national advertising in radio and magazines is designed, not to push *any one* specific product, but to tell the public that Rexall is a *complete* line of quality drug products. Before launching into its broad program, the Rexall Drug Company made a nation-wide survey which proved that, while a great many people knew the name "Rexall," relatively few knew that the name stood for a complete line of drug products. It also proved that nearly one-quarter of the nation's drug store customers were accustomed to trading *in* Rexall stores, but not necessarily buying Rexall products. That meant that the immediate objective of advertising need not be to attract more people into Rexall stores,

NATIONAL RADIO SHOW COAST TO COAST—FRIDAYS
PACIFIC
MOUNTAIN
CENTRAL
EASTERN
REXALL DRUG STORES PRESENT
JIMMY DURANTE & GARRY MOORE 6 30 PM

but rather to build a strong consumer acceptance of Rexall products when they are offered by the druggist.

METHODS

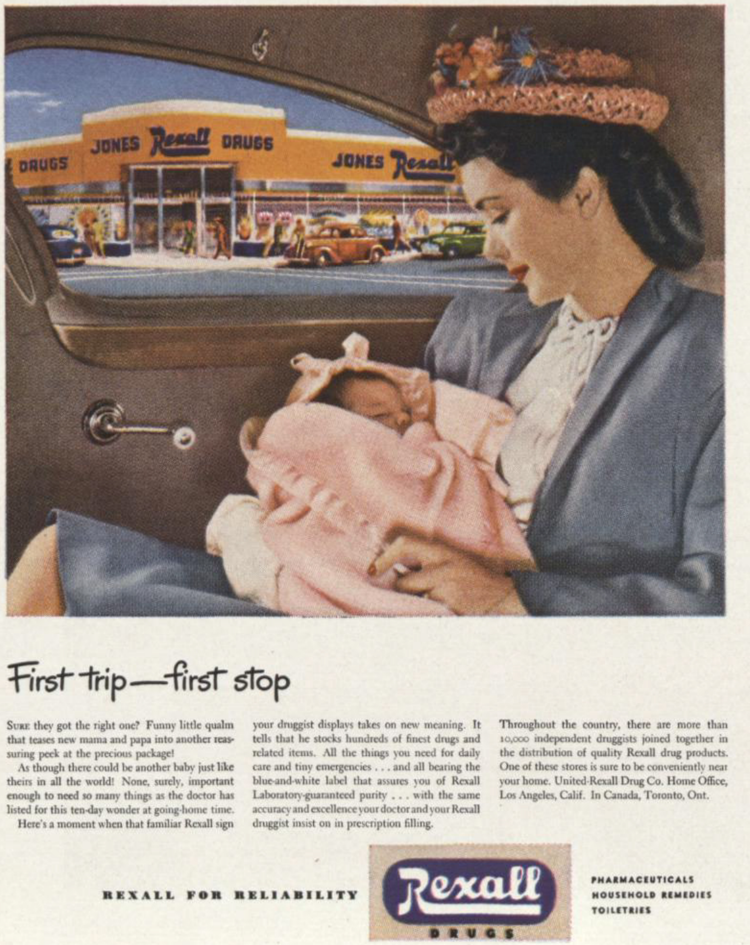
To implement the announced strategy in the most penetrating way, Rexall decided to concentrate the initial power of its national advertising in radio and national magazines. It sponsored the Jimmy Durante-Garry Moore show on the Columbia Broadcasting System, and contracted for full-page four-color advertisements in LIFE and The SATURDAY EVENING POST. Through its radio program, it has reached more than 12,000,000 listeners each week for 39 weeks of the year (and 5,000,000 a week during the summer); and its national magazines advertising, because of tremendous circulations and multiple-readership of each copy, has given Rexall *half a billion* reader-impressions in a year. To further this campaign, Rexall also advertises in the leading professional journals, reaching doctors, dentists and nurses.

The independent druggist has been given still further advertising support. There are made available to him a newspaper mat service for local advertising, a sales promotion service, merchandising plans, radio spot announcements and interior store displays. The druggist who uses this material has the best advertising and sales promotion in his community.

Company-owned chain stores naturally share in the benefits of national advertising. Their local newspaper advertising is handled by the same department that prepares the advertising aids for the independent Rexallite.

CONCLUSION

The total advertising effort of the Company is based on long-range planning. The effect of these promotional campaigns will be cumulative and it will take a period of years to receive the full benefit of present advertising expenditures.



First trip—first stop

Sure they got the right one? Funny little qualm that teases new mama and papa into another reassuring peek at the precious package!

As though there could be another baby just like theirs in all the world! None, surely, important enough to need so many things as the doctor has listed for this ten-day wonder at going-home time.

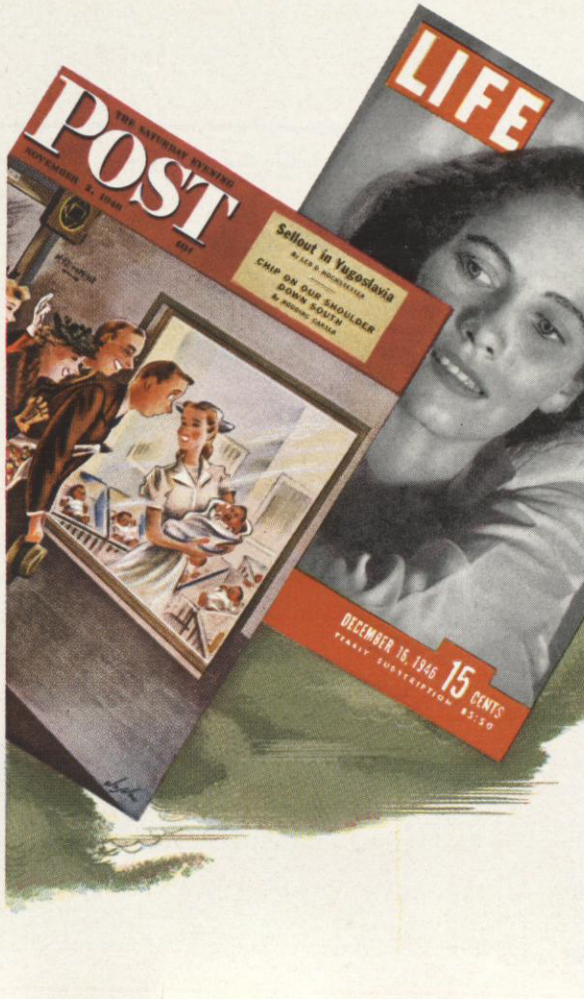
Here's a moment when that familiar Rexall sign your druggist displays takes on new meaning. It tells that he stocks hundreds of finest drugs and related items. All the things you need for daily care and tiny emergencies . . . and all bearing the blue-and-white label that assures you of Rexall Laboratory-guaranteed purity . . . with the same accuracy and excellence your doctor and your Rexall druggist insist on in prescription filling.

Throughout the country, there are more than 10,000 independent druggists joined together in the distribution of quality Rexall drug products. One of these stores is sure to be conveniently near your home. United-Rexall Drug Co. Home Office, Los Angeles, Calif. In Canada, Toronto, Ont.

REXALL FOR RELIABILITY

Rexall
DRUGS

PHARMACEUTICALS
HOUSEHOLD REMEDIES
TOILETRIES



OPPORTUNITY UNLIMITED

Rexall is determined that every independent druggist who holds a Rexall franchise shall have the opportunity *and the strength* to compete successfully against any organized chain competition.

We are determined to see that the independent Rexall drug retailer does not have to stand alone, and to demonstrate that big business and small business can form a working partnership that will strengthen both and will stimulate the free enterprise system.

The resources, experience and mass purchasing power of all Rexall organizations are teamed up behind every retail unit in the Rexall system.

This plan, unique in American business, is called "Opportunity Unlimited."

One of the early results of the "Opportunity Unlimited" plan is the spread of independently-owned Rexall super drug stores. The super drug store is the druggist's basic answer to competition. It is a modernized store which is designed to make shopping simple and interesting by featuring departmentization and easy selection of merchandise.

The independent Rexallite has at his command, at cost, a complete service for the establishment and operation of a Superstore.

The service extends from finding the best location for the store, all the way through the design, layout, equipment and financing of the store. It embraces the drug and fountain fixtures, the purchase of both standard and special merchandise, sales promotion merchandising and display, employee training, and every other department of successful Superstore operation. No other company in our industry has a comparable program.

Such a program would not be possible of execution without highly qualified personnel. Rexall has that personnel. In each field of activity that stems from retail drug store operation, an outstanding expert, with competent assistants, is ready to give all possible guidance to the independent Rexall druggist. Rexall headquarters, Rexall (the independents) and the Company's chain operations are on equal footing. The strength of one is the strength of the other.

Backing up "Opportunity Unlimited" is the Rexall creed, as propounded by President Justin W. Dart:

To perpetuate the ideals on which Louis K. Liggett founded Rexall.

To unite Rexall under the Rexall banner so that every Rexallite is in a position to share the advantages which accrue to Company-owned chains.

To build the greatest merchandising and service organization in the drug world, to serve all Rexallites.

To produce the highest quality merchandise which may be made by a combination of good ingredients and the best in professional skill.

To repackage and restyle all the Rexall lines.

To nationally advertise the name Rexall so forcefully and so consistently that the acceptance of Rexall products will be universal, consumer demand considerable, and the name Rexall on any drug store a symbol of integrity and leadership.

To provide every Rexall druggist the plans, the equipment, the merchandise, and the inspiration to operate the outstanding drug store in his community.

Truly, OPPORTUNITY UNLIMITED.

ORANG
Rexall
TOILETRIES
PAY CASHIER HERE

Large volume, well-merchandised Superstores are the answer to the keen competition of the post-war period. "Opportunity Unlimited" gives the answers for independent Rexall franchise holders.

UNITED-REXALL DRUG, INC. (Incorporated

CONSOLIDATED BALANCE SHEETS —

ASSETS

	1946	1945
CURRENT ASSETS:		
Cash in banks and on hand	$16,629,289	$13,325,978
United States Treasury notes, tax series		2,600,000
Canadian Government bonds and other foreign investments (*market quotations, approximately* $805,000 *in* 1946 *and* $790,000 *in* 1945)	644,881	689,908
Customers' accounts and notes receivable, less reserves	5,620,745	4,632,819
Other accounts and notes receivable, less reserves	2,334,907	1,685,553
Refundable 1944 Federal taxes on income		380,000
Inventories of merchandise, partly finished stocks, materials and supplies — at cost or market whichever lower	42,842,482	30,027,973
TOTAL CURRENT ASSETS	$68,072,304	$53,342,231
INVESTMENTS AND ADVANCES, ETC.:		
Investments in and advances to wholly owned English and South African subsidiaries, not consolidated (*Note 1*)	$ 378,756	$ 371,416
Miscellaneous investments, at or below cost, less reserve	136,944	136,800
Noncurrent receivables, advances and deposits, less reserves	772,205	579,793
Postwar credits of Canadian excess profits taxes — estimated	104,288	98,660
Cash in banks — restricted (*Note 2*)	848,808	2,733,000
	$ 2,241,001	$ 3,919,669
PROPERTY ACCOUNTS (*Notes 2 and 3*):		
Land, buildings and building fixtures	$10,553,197	$ 7,069,632
Machinery and equipment, etc.	10,152,711	8,540,240
Store fixtures, leaseholds and improvements, etc.	16,292,115	12,699,808
	$36,998,023	$28,309,680
Less — Reserves for depreciation	17,740,161	16,385,633
	$19,257,862	$11,924,047
DEFERRED CHARGES:		
Prepaid insurance, taxes, rent, etc.	$ 1,134,306	$ 815,190
Unamortized discount and expense on debentures	86,911	68,623
	$ 1,221,217	$ 883,813
GOODWILL, TRADEMARKS, ETC.	$ 1	$ 1
	$90,792,385	$70,069,761

in Delaware) AND SUBSIDIARY COMPANIES

DECEMBER 31, 1946 AND DECEMBER 31, 1945

LIABILITIES

	1946	1945
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$13,668,322	$12,262,143
Current instalments of serial bank loans	1,325,000	1,100,000
Current sinking fund provision on debentures	570,000	
Real estate obligations (*current instalments*)	16,476	8,504
Dividend on capital stock payable January 2, 1947	432,395	
Reserves for estimated Federal and Canadian taxes on income and for renegotiation (*Note* 4)	4,623,846	5,866,153
TOTAL CURRENT LIABILITIES	$20,636,039	$19,236,800
FUNDED DEBT OF REXALL DRUG COMPANY, less current instalments shown above:		
Serial bank loans, due to 1954—partly secured (*Note* 2)	$ 6,575,000	$ 6,100,000
Sinking fund debentures, 3%, due 1965, authorized and issued $25,200,000 in 1946 and $21,000,000 in 1945	24,630,000	21,000,000
Collateral trust, 3%, secured debentures due 1965 (*Note* 2)—authorized and issued	1,300,000	1,300,000
Real estate obligations (*Note* 2)	278,477	185,931
	$32,783,477	$28,585,931
RESERVES, per accompanying statement:		
For postwar rehabilitation	$1,135,000	$ 1,620,000
For contingencies	881,000	900,000
Other reserves and deferred income		67,988
	$ 2,016,000	$ 2,587,988
CAPITAL STOCK OF UNITED-REXALL DRUG, INC. AND CONSOLIDATED SURPLUS:		
Capital stock (*Note* 6)—		
Authorized—5,000,000 shares, par value $2.50 each Issued—3,501,120 shares	$ 8,752,800	
Authorized and issued—1,400,560 shares, par value $5 each		$7,002,800
Capital surplus per accompanying statement	10,525,117	426,819
Earned surplus (*Note* 7) per accompanying statement	16,305,756	12,566,490
	$35,583,673	$19,996,109
Less—Capital stock of United-Rexall Drug, Inc. acquired and held by Rexall Drug Company (*Note* 8)—41,956 shares of $2.50 par value in 1946 and 31,178 shares of $5 par value in 1945, at cost	226,804	337,067
	$35,356,869	$19,659,042
	$90,792,385	$70,069,761

UNITED-REXALL DRUG, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNED SURPLUS

FOR THE YEAR 1946

Balance at beginning of year	$12,566,490
Add (*deduct*):	
Profit per accompanying statement	4,048,403
Partial reversal of provision in prior years for unrealized Canadian exchange losses	123,258
Dividend declared	(432,395)
Balance at close of year (*Note* 7)	$16,305,756

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS

FOR THE YEAR 1946

Balance at beginning of year	$ 426,819
Excess, over average cost, of consideration received from exercise of options for 10,200 shares of United-Rexall Drug, Inc. capital stock held by subsidiary (*Note* 8)	19,788
Premium on sale of capital stock, less $125,582 expenses	9,411,918
Excess of net assets of affiliated real estate company at date of acquisition over nominal investment therein (*Note* 1)	666,592
Balance at close of year	$10,525,117

CONSOLIDATED STATEMENT OF RESERVES

FOR THE YEAR 1946

	Reserves for postwar rehabilitation	*Reserves for contingencies*	*Other reserves and deferred income*
Balance at beginning of year	$1,620,000	$900,000	$67,988
Add (*deduct*):			
Restoration to profit and loss of portions of the reserves (*Note* 5)	(485,000)	(34,000)	....
Other changes, net	....	15,000	(67,988)
Balance at close of year	$1,135,000	$881,000	....

UNITED-REXALL DRUG, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE YEARS 1946 AND 1945

	1946	1945
Sales, less returns, allowances and discounts	$178,855,630	$158,182,700
Cost of sales, selling, distribution, promotional and administrative expenses, etc. (*including depreciation of $1,625,000 in 1946 and $1,410,025 in 1945*)	171,186,593	149,438,738
OPERATING PROFIT	$ 7,669,037	$ 8,743,962
Other charges (*credits*):		
Interest and amortization of expense on funded debt, etc.	$ 834,532	$ 811,826
Dividends on subsidiary's preferred stock, retired in 1945		199,230
Dividends, interest and other income	(42,232)	(134,449)
Office and plant moving and rearrangement expenses and related charges (including approximately $145,000 in 1946 and $580,000 in 1945 for moving general offices from Boston to Los Angeles)	267,343	1,220,111
Excess of carrying value of Boston real estate over proceeds from sale		1,277,713
Loss (gain) from real estate operations	(87,601)	78,285
Cost of leaseholds, etc. purchased during year (*Note* 3)		93,679
Store rehabilitation charges and abnormal personnel training expenses (*Note* 5)	492,592	71,596
Provision for Federal and Canadian taxes on income and for renegotiation (*Note* 4), less in 1945 $1,630,000 estimated reduction of 1944 Federal taxes attributable to carry-back adjustments	2,675,000	2,875,000
Portion of premium paid on debentures retired and related unamortized expense, equal to reduction of income taxes attributable thereto		750,000
Restoration of portions of amounts previously provided for postwar rehabilitation and contingencies (*Note* 5) — related charges included above	(519,000)	(470,000)
	$ 3,620,634	$ 6,772,991
PROFIT TRANSFERRED TO EARNED SURPLUS	$ 4,048,403	$ 1,970,971

NOTES TO FINANCIAL STATEMENTS

Note 1—Basis of consolidation:

The accompanying consolidated financial statements include the accounts of United-Rexall Drug, Inc. (parent holding company), Rexall Drug Company (parent operating company), and the domestic and Canadian subsidiaries.

Subsidiaries consolidated for 1946 include the following companies acquired or formed during the year:

Apex Realty Co.
Broadhill Company
Franklin Hosiery Mills, Inc.
Lane Drug Stores Incorporated and subsidiary
E. T. Renfro Drug Company and affiliated corporations
Superex Corporation

Apex Realty Co. was an affiliated real estate company, the outstanding capital stock of which was purchased for a nominal amount under an option agreement exercised in 1946 after it had disposed of its properties. The excess of that company's net assets over the investment in its stock was added to consolidated capital surplus account.

The English and South African wholly owned subsidiaries of Rexall Drug Company are not consolidated but the investments in and advances to these companies are shown as a separate item of $378,756 on the accompanying balance sheet. The underlying net assets (chiefly current) at December 31, 1946 of these companies expressed at their equivalent in United States dollars were approximately $695,000. Earnings of these subsidiaries, $88,000 in 1946 and $36,000 in 1945, have not been included in the accompanying consolidated statement of profit and loss except to the extent of dividends ($1,200 in both years) received in United States dollars.

Note 2—Pledge of assets:

The collateral trust debentures of Rexall Drug Company and $600,000 of its serial bank loans were secured at December 31, 1946 by the entire capital stock of Bevega, Inc., whose underlying assets, included in the consolidated accounts as of that date, consisted of cash in banks of $849,000 (restricted to construction or to payment on the debentures) and a home office building under construction in Los Angeles on which costs to December 31, 1946 were approximately $2,400,000.

The real estate obligations are secured by properties carried at a depreciated amount of $438,000 at December 31, 1946.

Note 3—Property accounts:

In the acquisition during 1946 of drug store chains and individual drug stores, amounts aggregating approximately $1,200,000 were paid for leaseholds. These amounts were capitalized to be amortized over the lives of the leases under the company's policy of capitalizing the cost of leaseholds purchased only when the aggregate amount of such purchases during a fiscal year is significant and of charging relatively unimportant amounts to income account as was done in 1945 and prior years.

Although certain portions of the gross amounts at which the property accounts are stated represent appraisal values or written-down amounts recorded years ago, it appears that such portions for the most part have been fully depreciated and that the net carrying value of the properties at December 31, 1946 is not materially greater or less than depreciated cost.

The gross property amounts at December 31, 1946 include equities in real estate amounting to $307,885 which are held subject to unassumed mortgages of $527,839.

Note 4—Reserves for estimated Federal and Canadian taxes on income and for renegotiation:

The reserves for Federal and Canadian taxes on income at December 31, 1946 are considered to be reasonable and adequate to cover all such accrued and unpaid taxes, but the companies' liabilities therefor are subject to final determination by the respective taxing authorities. The Bureau of Internal Revenue has not yet examined the consolidated tax returns of the domestic companies for 1942, 1943 and 1946 or their separate returns for 1944 and 1945.

Renegotiation of war business was concluded during 1946 with the corporation and its subsidiaries receiving a clearance in respect of 1945 and making a small refund to the government in respect of 1944. Adequate provision for the refund of 1944 profits had been made in the accounts for that year.

Note 5—Charges to reserves for postwar rehabilitation and contingencies:

During 1946 the several companies incurred charges and losses of the nature contemplated when reserves were provided from profits in 1944 and previous years for postwar rehabilitation and for contingencies; such charges and losses included abnormal personnel training expenses, preopening expenses of postwar store locations, losses in connection with store closings and rehabilitation and inventory disposal losses and writedowns. The amounts thereof have been included in the consolidated statement of profit and loss in their appropriate categories, and a special credit of $519,000 has been made to profit and loss by transfer from the reserves; the balances of the reserves after such transfer are estimated to be sufficient to cover future requirements.

Note 6—Capital stock:

Pursuant to stockholder authorization in May 1946, each $5 par value share of capital stock was changed into two shares of $2.50 par value stock and the number of authorized shares of such stock was increased to 5,000,000. In June 1946, 700,000 shares of the new $2.50 par value stock were sold to a banking syndicate for $11,287,500; the excess of $9,537,500 over par value was added to consolidated capital surplus account against which the $125,582 expenses of issue were charged.

Note 7—Earned surplus:

The consolidated earned surplus of United-Rexall Drug, Inc. and its subsidiaries covers the period since September 1, 1933, the approximate date of organization of United-Rexall Drug, Inc. The balance thereof at December 31, 1946, $16,305,756, was represented by $401,383 of earned surplus of United-Rexall Drug, Inc. and $15,904,373 of undistributed consolidated surplus earnings of Rexall Drug Company and subsidiaries since September 1, 1933. Under the terms of the indentures securing outstanding debentures of Rexall Drug Company, approximately $3,800,000 only of the latter amount was available for distribution to the parent company, United-Rexall Drug, Inc., in the form of dividends on the wholly owned capital stock of Rexall Drug Company.

Note 8—Executive stock options:

In March and May 1946, executives who were granted options in 1944 to purchase shares of the capital stock of United-Rexall Drug, Inc. held by Rexall Drug Company exercised their options with respect to 10,200 shares of the then outstanding $5 par value stock, being all of the shares for which options could be exercised prior to March 1, 1947. The cost to the company of the 10,200 shares purchased by executives was $110,262; the consideration received by the company was $130,050 representing the market quotation, $12.75 per share, on the day prior to the adoption of the option plan; and the aggregate value at market quotations on the days on which the options were exercised was $339,575. At December 31, 1946 the executives held options to purchase at $6.375 per share 36,800 shares out of a total of 41,956 shares of $2.50 par value stock then held by the company, such options being exercisable in instalments over the six-year period beginning on March 1, 1947.

PRICE, WATERHOUSE & CO.

530 West Sixth Street
Los Angeles 14

March 18, 1947

To the Board of Directors
of United-Rexall Drug, Inc.:

We have examined the consolidated balance sheet of United-Rexall Drug, Inc. and its subsidiary companies as of December 31, 1946 and the related consolidated statements of profit and loss, earned surplus and capital surplus for the year ending on that date. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, such financial statements present fairly the consolidated position of United-Rexall Drug, Inc. and its subsidiary companies at December 31, 1946, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

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